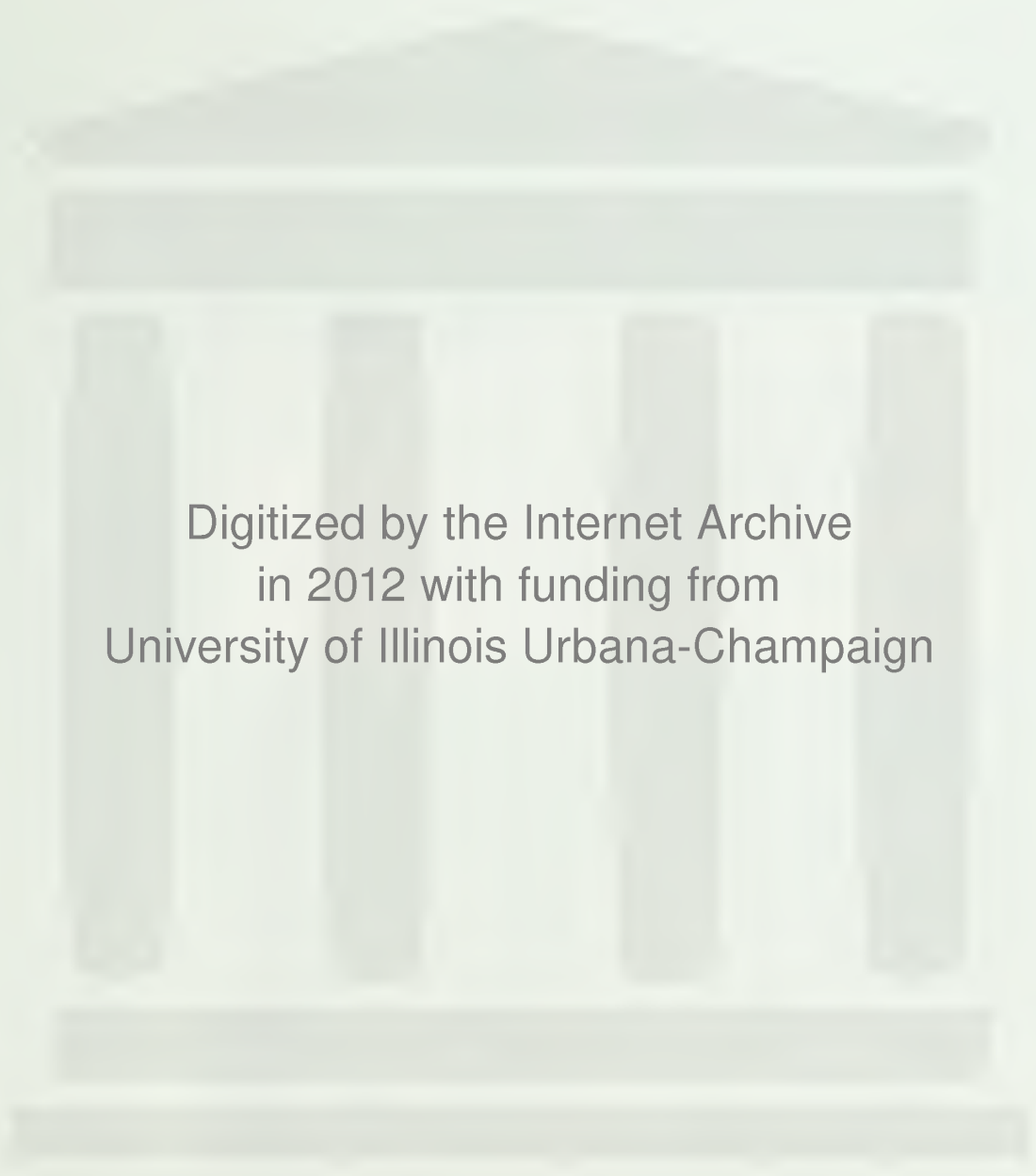






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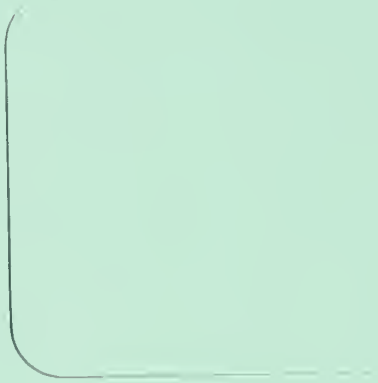
## Faculty Working Papers

EMPLOYEE PERCEPTIONS OF FINANCIAL AND  
NONFINANCIAL JOB OUTCOMES: TOWARD AN  
INCREASED VARIETY OF ALTERNATIVE INCENTIVES

Manuel London

#308

College of Commerce and Business Administration  
University of Illinois at Urbana-Champaign



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April 9, 1976

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## ABSTRACT

Employee perceptions of social, growth, and economic job outcomes were examined to demonstrate the potential of using nonfinancial incentives in a reward system. One hundred thirteen female, nonacademic university employees responded to each outcome by indicating its importance, its equity of administration, and whether its attainment is due directly to the employee (internal control) or to the behavior of others, organizational rules, or chance (external control). A factor analysis of the importance ratings yielded four outcome dimensions: Job Freedom, Trust and Esteem, Economic Benefits and Growth, and Recognition and Feedback. The average equity rating for the items in each factor was positively related to measures of job satisfaction for the total sample. Internal control was related to satisfaction with job security. Equity and control ratings tended to be more highly related to satisfaction measures when the outcome dimensions were of low importance to employees than when they were of high importance. Implications of the results for integrating nonfinancial incentives into the organizational reward system are discussed.



## EMPLOYEE PERCEPTIONS OF JOB OUTCOMES: TOWARD AN INCREASED VARIETY OF ALTERNATIVE INCENTIVES

Organizations rely upon incentives to provide employees with the motivational impetus for effective job behaviors (e.g., high productivity, low absenteeism, willingness to remain a member of the organization, etc.). The assumption is that behaviors desired by the organization will be repeated when they result in outcomes valued by employees. As a consequence, much attention has been given to the development of attractive incentive systems. Most incentive systems offer pay and fringe benefits such as health and life insurance, retirement plans, and stock options. Since pay is a generalized reinforcer, it may be used to satisfy a variety of needs (Opsahl & Dunnette, 1966). Nevertheless, the rising cost of monetary incentives and union demands for increased economic benefits unrelated to job performance are leading organizations to develop other types of rewards.

There are numerous job outcomes that are important to employees and are related to job satisfaction yet may not be formalized incentives contingent upon behavior desired by the organization. The current study investigates a variety of social, growth, and economic outcomes of the task and task environment. Specifically, perceptions of the importance of these outcomes, the equity with which they are administered, and the degree to which they are under the control of the employee are examined in relation to job satisfaction. The goal is to derive a broad set of outcomes which are of concern to employees and which should be considered for adoption as formalized incentives.

One set of incentives that has received little attention falls under the rubric of social reinforcers. Social incentives are behavioral





outcomes which have a psychological reward value by fulfilling social acceptance, affiliation, and interpersonal gratification motives of people (Raben, Wood, Klimoski, & Hakel, 1975). Although an outcome may satisfy other needs, it may be classified as a social incentive if its administration or consumption involves another individual or a group of individuals. Positive, formal social incentives (i.e., those that have been institutionalized in the form of organizational policy) include awards, membership in clubs, use of executive dining room, and other special privileges (McCormick & Tiffin, 1974, p. 338). Positive, informal social incentives (i.e., those that have not been institutionalized and cannot be counted on by the employee to occur) include praise, encouragement, and group acceptance. Reprimands, disciplinary actions, and withholding special privileges are examples of negative, formal social incentives whereas disapproval, criticism, and lack of cooperation by coworkers are examples of negative, informal social incentives. In a study of air force trainees, Wood, Hakel, DelGaizo, and Klimoski (1973) generated a list of 62 potentially positive social incentives to reward effective learning and leadership behaviors. Several studies have demonstrated that a leader's use of social incentives is positively related to subordinate performance and satisfaction (Oldham, 1976; Sims & Szilagyi, 1975).

Another set of incentives emanates from the job enrichment literature (e.g., Hackman, 1975; Herzberg, 1975). Outcomes such as increased autonomy, promotion, participation in making decisions that affect the employee, and feedback on performance provide the individual with intrinsic satisfaction related to the need for personnel growth. These outcomes may be viewed as incentives when their occurrence is dependent upon effective job behavior.



The beneficial effects of an incentive are determined not only by the absolute value of the incentive to the employee but also by the fairness or equity with which it is administered (Patchen, 1961; Adams, 1965). "External equity" occurs when rewards are equal to or greater than those in other organizations (Lawler, 1975). "Internal equity" occurs when a distribution of rewards is seen as fair by organizational members. The present study examines the perceived internal equity of a variety of positive job incentives. Perceived equity is hypothesized to be related to job satisfaction. However, the strength of the relationship may be determined by the importance of the job outcome. For example, the more important the incentive to the individual, the more fairness of its administration may be of concern and hence related to job satisfaction. Therefore, importance will be examined as a moderator of the equity-satisfaction relationship.

Another variable which influences the effectiveness of an incentive is the extent to which an employee controls its occurrence. Individuals who believe in internal control attribute the cause of positive and negative outcomes to their own behavior. Individuals who believe in external control attribute outcomes to factors beyond their control. London (1976) found that nonacademic university employees who believed that departmental rewards (e.g., a pay raise) were due to their own effort or performance were more satisfied with their jobs than those who believed that departmental rewards were influenced by chance, the behavior of others, or organizational policy. In general, individuals who believe that positive outcomes are consequences of their own job behavior should be more satisfied with their jobs than individuals who believe that positive outcomes are consequences of external factors.





The possibility that importance of job outcomes also moderates the control-satisfaction relationship will be examined.

## METHOD

### Sample

Two hundred randomly selected female, nonacademic clerical employees at a large state university were asked to participate. Usable questionnaires were received from 113 individuals. Half the sample had been employed by the university for at least three years. On the average, respondents had worked on two different job classifications (e.g., clerk-steno I, clerk-steno II) during their tenure with the university.

### Questionnaire

The questionnaire was designed to measure perceptions of positive job outcomes and job satisfaction. The outcomes were generated from interviews conducted with 16 nonacademic employees about the benefits of their jobs. Forty five non-redundant positive outcomes applicable to clerical positions were culled from the interviews. These outcomes are listed in Table 1. The questionnaire asked respondents to make three ratings with reference to each outcome. The first was a rating of "the importance of the outcome to you." The second was a rating of fairness of the distribution of the outcome "to you and your coworkers." This was explained by the question, "Are you all treated equally or is there some inequity whereby everyone is not given the same opportunity to receive the outcome?" Both importance and fairness were rated on 7-point scales (1 = low; 7 = high). The third question asked respondents to indicate which one of eight factors listed at the top of each



page "most influences the occurrence of each outcome." Ratings were made by placing the number corresponding to the appropriate factor next to each outcome. When attainment of an outcome was due directly to the employee, it was classified as internal control. These items included "good job performance," "having the ability, although not necessarily using it, to perform well on the job," and "trying hard although not necessarily performing well." When attainment of an outcome was due primarily to other people, organizational rules, or chance, it was classified as external control. These items included "being in the right place at the right time," "the amount of time the person has worked on the job (seniority)," "knowing the right people," "being on good terms with your supervisor," and "the policy of the department or university." A similar procedure was used by Heisler (1974) and London (1976) to measure belief in skill versus chance determinants of departmental rewards.

Facets of job satisfaction were measured by the specific satisfaction index of the Job Diagnostic Survey (JDS) (Hackman & Oldham, 1975). The measures obtained and their corresponding reliabilities for the present sample are as follows:<sup>1</sup> pay (.83), security (.67), social (.61), supervisory (.77), and growth (.93). The median intercorrelation between the satisfaction measures was .46 ( $p < .01$ ). This correlation was thought to be low enough to treat the satisfaction measures independently.

### Procedure

Cooperation from respondents was obtained by research assistants who personally asked the employees to participate and provided a brief explanation of the questionnaire. The respondent was requested to





complete the questionnaire at her convenience and return it in a sealed envelope via campus mail. Since the respondent was not asked to identify herself, anonymity was assured.

### Analyses

Employees were assumed to structure their perceptions of the similarity of outcomes on the basis of the importance of the outcomes to them. Judgments of the equity and control of the items within each importance dimension should then be related to facets of job satisfaction. Therefore, a principal factor analysis (with the highest  $r$  in the row of the intercorrelation matrix used as the communality estimate for each outcome) and varimax rotation were performed on the importance ratings. Factor indices were calculated by averaging the ratings on each factor to arrive at importance, equity, and control scores. The relationship between job satisfaction and importance, equity, and control scores for each outcome dimension were then examined. Correlations were computed for each job satisfaction measure separately to determine the possible differential relationship between the outcome dimension scores and the different facets of job satisfaction. The moderating effects of the importance of the outcome dimensions on the job satisfaction-equity and control relationships were determined by splitting the sample at the median on the importance score for each dimension and calculating the correlations between the job satisfaction measures and the equity and control scores for the high and low importance subgroups.

### RESULTS

Table 1 presents the varimax rotation factor loadings obtained from the importance ratings of the outcomes. Four dimensions emerged from



the analysis accounting for 73% of the total variance. Each factor accounted for about 25% of the common variance. The factors were defined by outcomes with loadings greater than or equal to .40. The first factor was labeled Job Freedom. Examples of the nine outcomes included in this factor are "Being able to choose the type of work you want to do," "Taking longer breaks when you have a special errand to take care of," and "Having some flexibility in your working hours." The second factor was termed Trust and Esteem. Among the seven items comprising this factor are "Having a key to your building," "Being given new office furniture," and "Having responsibility for reordering office supplies." The third factor was labeled Economic Benefits and Growth. Examples of the ten items representing this dimension are "Having a variety of different things to do," "Promotion to a higher job classification as a result of good performance," and "Merit increases in pay." Perhaps the reason economic and growth outcomes loaded highly on the same factor is that growth outcomes are perceived as antecedents of higher monetary benefits. The fourth factor was termed Recognition and Feedback. Among the seven items included in this factor are "Being told you are doing well by your peers," "Being told you are doing well by your supervisor," and "Being told you are doing poorly by your supervisor." The median intercorrelation between factors was .29 when based upon the average of the importance ratings, .53 when based upon the average of the equity ratings, and .66 when based upon the average of the control ratings. The relatively large intercorrelations between factors for the equity and control scores may be explained by the fact that the factor analysis was based on the importance ratings and not the equity and control ratings. While the factor intercorrelations are all significant at the .01 level,





the dimensions were treated separately in subsequent analyses to clearly understand differences in their association with job satisfaction. The correlations between the importance, equity, and control indices were fairly independent for each factor indicating that common method variance was not a problem. The median correlation was  $-.02$  (n.s.) for Job Freedom,  $.01$  (n.s.) for Trust and Esteem,  $-.09$  (n.s.) for Economic Benefits and Growth, and  $-.19$  ( $p < .05$ ) for Recognition and Feedback.

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 Insert Table 1 about here  
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Importance of the outcomes was unrelated to job satisfaction. The median correlation between the average importance rating for each importance factor score and job satisfaction measure was  $.05$  (n.s.). The range was between  $-.25$  ( $p < .01$ ) and  $.17$  (n.s.).

The correlations between the equity scores and each satisfaction measure for the four factors are included in Table 2. Eighteen of the twenty correlations were significant indicating a positive relationship between perceived equity of each outcome dimension and facets of job satisfaction. The equity scores for Job Freedom, Economic Benefits and Growth, and Recognition and Feedback were more highly correlated with supervisory and social satisfaction than with the other facets of job satisfaction. The equity of Trust and Esteem was more highly related to security and social satisfaction than the other satisfaction measures.

The sample was divided at the median of the importance score to examine the moderating effects of importance on the equity-satisfaction relationships. Sixteen of the 20 correlations were larger for employees viewing the outcomes as low in importance than for those viewing the outcomes as high in importance, although the differences between pairs



of correlations were not statistically significant. Perhaps when a type of outcome is of high importance, equity of administration is not as meaningful to the employee as other attributes of the outcome such as whether or not it is attained.

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 Insert Table 2 about here  
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The correlations between control of the outcome factors and satisfaction are included in Table 2. Only six of the twenty correlations based upon the data for the total sample are significant. For all the outcome factors, the more an outcome is internally controlled, the higher the employee's satisfaction with security. Growth and supervisory satisfaction were also higher when Job Freedom outcomes were under the control of the employee. Looking at the high and low importance subgroups for each factor, the relationships between control and satisfaction with job security appear to be strongest when the outcome factor is of low importance (with the exception of Job Freedom where control is positively related to security satisfaction for both subgroups). When the factor is important, perceptions of internal control, similar to equity, may not be as salient to an employee's job satisfaction as other considerations not measured in the current study.

#### DISCUSSION

Ratings of importance, equity of administration, and control of forty-five job outcomes were obtained for a sample of nonacademic university employees. A factor analysis of the importance ratings resulted in four factors: Job Freedom, Trust and Esteem, Economic Benefits and Growth, and Recognition and Feedback. The average perceived equity with which



the outcomes in each factor were administered was positively related to facets of job satisfaction for the total sample. Equity ratings were more highly related to job satisfaction for the subgroups viewing outcome factors as low in importance. Supervisory and social satisfaction tend to be more highly related to perceptions of equity of the outcome dimensions than satisfaction with the other job facets perhaps since many of the outcomes have a strong social component and are administered by the supervisor. The belief that an outcome factor was predominantly internally controlled was associated with higher job security, especially for employees who viewed the outcome factor as low in importance. While equity and control contribute more to job satisfaction when an outcome is of low importance, the major determinant of job satisfaction for those who view an outcome as high in importance may be whether or not the outcome has been attained. Future research is necessary to test this hypothesis.

The results have implications for the development and administration of incentive systems. Incentives need not be limited solely to economic benefits. Outcomes that allow an individual to interact with others (e.g., being allowed to have parties on the job) and which lead to personal growth (e.g., being assigned tasks that make full use of your skills) can also serve as incentives when their attainment is contingent on behaviors contributing to organizational effectiveness. Whether these outcomes are utilized as incentives or not by supervisors or the organizational reward systems, the fairness with which they are administered and the degree to which they are controlled by the individual have an impact on job satisfaction especially when the outcome itself is not highly important.





Institutionalizing social and growth outcomes as part of the organizational reward structure may be necessary to assure fair administration and internal control. Moreover, supervisory training should emphasize the importance of treating all employees equally with regard to non-monetary as well as monetary job outcomes.

Schrieber and Sloan (1970) have argued that financial incentives are based upon an outmoded economic model of man and that a broadened concept of incentives is necessary. Contemporary theories of human motivation emphasize the importance of designing the job to meet employee growth needs (e.g., Hackman & Oldham, 1975). However, social and existence needs have been demonstrated to be as important as growth needs to many individuals (Alderfer, 1972). Developing incentive programs which utilize a wide range of outcomes can enhance organizational effectiveness by helping employees satisfy a variety of needs. This will require a recognition of individual differences in needs. Just as cafeteria plans have been suggested for financial compensation (Nealey, 1963; Todd, 1975), employees could have a choice among growth incentives (e.g., being placed on a task that uses a variety of skills), social incentives (e.g., being assigned to work on a task with a friend), and economic incentives (e.g., a monetary bonus). Incentive packages which meet several different needs could be constructed (e.g., recognizing good performance by being assigned temporary leadership duties with a commensurate bonus in pay).

The use of social and growth incentives may have many benefits in addition to meeting different needs. They may be effective in enhancing the value of goal achievement when budgets don't allow financial incentives. Also, the negative and anxious feelings that surround the



discussion of money may be eliminated by incentives that do not have implications for such crucial factors as the support of one's family. Furthermore, social and growth incentives may be easier to administer on irregular reward schedules than money. For example, principles of behavior modification hold that a variable ratio schedule (e.g., giving an employee a 50-50 chance to receive a reward upon attaining a goal) is highly effective for maintaining high motivation (Luthans & Kreitner, 1975). The administration of nonmonetary incentives on such a schedule may receive less union and employee resistance than the administration of a monetary incentive on that basis.

Social and growth reinforcers have been found to be of value in changing a wide range of behaviors. For example, Haslam (1970) and Sarbin and Allen (1968) demonstrated the ability of social incentives to increase participation and leadership behavior in group settings. Providing feedback about performance, increasing job autonomy, and other growth related outcomes have been found to have a positive effect on intrinsic motivation (Hackman & Oldham, in press). These types of incentives may be particularly appropriate for rewarding group performance, for example, by providing all group members with temporary special privileges or allowing group members to complete an assignment without a supervisor.

Recently, some companies have moved to an all salaried work force to demonstrate the trust and respect management has in its employees (Hulme & Bevan, 1975). Incentive systems which provide both blue and white collar workers with social and growth outcomes can demonstrate management's respect and trust in the work force while maintaining behavior-outcome contingencies which lead to higher performance. The





price employees pay (i.e., the necessary behavior) should be made commensurate with the value of the outcome to the employee. Therefore, research is necessary to determine the feasibility of alternative non-monetary incentives, their value to employees, and various methods of administration. Since employees form their job attitudes on the basis of varied job outcomes, these outcomes should be included in incentive systems to assure equitable administration and employee control through job-related behavior.



## Footnotes

Thanks are due to Fred Fex for computational assistance and to Greg Oldham for comments on an earlier draft.

Requests for reprints should be sent to Manuel London, Department of Business Administration, University of Illinois, 61 Commerce West, Urbana, Illinois 61801.

<sup>1</sup>All reliabilities were estimated by applying the Spearman-Brown prophecy formula to the median interitem correlation.



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Table 1

## Final Factor Loadings for Importance Ratings

Job Outcomes	I Job Freedom	II Trust and Esteem	III Economic Benefits and Growth	IV Recognition and Feedback	$\chi^2$
24. Being able to take sick leave as vacation time.	<u>71</u>	-09	19	-11	57
35. Being able to choose the type of work you want to do.	<u>55</u>	18	11	03	35
7. Taking longer breaks when you have a spec' l errand to take care of.	<u>54</u>	14	05	06	31
29. Having some flexibility in your working hours (e.g., come in late as long as you make it up).	<u>53</u>	10	04	14	31
41. Taking coffee breaks when you want.	<u>50</u>	35	04	11	39
31. Being able to take a leave of absence without pay when you want a longer vacation time.	<u>48</u>	12	39	-15	42
40. Taking your lunch break when you want.	<u>47</u>	37	-08	04	37
34. Use of university equipment or supplies for your personal use.	<u>45</u>	27	06	-02	28





Table 1 continued

## Final Factor Loadings for Importance Ratings

Job Outcomes	I Job Freedom	II Trust and Esteem	III Economic Benefits and Growth	IV Recognition and Feedback	$h^2$
9. Having choice of office space.	<u>44</u>	35	-01	32	41
33. Having a key to your building.	-10	<u>65</u>	09	08	45
32. Having a key to your office.	-15	<u>63</u>	18	-02	45
37. Having responsibility for reordering office supplies.	25	<u>55</u>	14	03	38
42. Being allowed to have parties on the job to celebrate special occasions (e.g., birthdays, someone leaving, etc.).	39	<u>50</u>	-04	06	41
10. Being given new office furniture.	32	<u>51</u>	-05	36	50
43. Having a choice of parking lots.	18	<u>50</u>	03	00	28
22. Being taken to lunch by those you work for as a token of appreciation for good service.	28	<u>49</u>	02	25	38
23. Being able to check your own work to see how well you are doing.	08	04	<u>67</u>	18	48



Table 1 continued

## Final Factor Loadings for Importance Ratings

Job Outcomes	I Job Freedom	II Trust and Esteem	III Economic Benefits and Growth	IV Recognition or Feedback	$h^2$
20. Being assigned tasks that make full use of your skills.	-13	10	<u>58</u>	<u>48</u>	61
25. Choosing the time you want for your vacation.	27	10	<u>57</u>	02	41
14. Having a variety of different things to do.	11	-01	<u>55</u>	24	37
16. Being given the time to finish a task completely.	-01	21	<u>50</u>	02	29
13. Having the option to decide whether or not you want overtime when a job must get done quickly.	11	39	<u>49</u>	27	48
30. Promotion to a higher job classification as a result of good performance.	22	-06	<u>48</u>	26	35
1. Merit increases in pay.	-03	14	<u>44</u>	-04	21
5. Opportunity to take test to qualify for a higher job classification.	23	-11	<u>41</u>	15	25
19. Being given the opportunity to correct your own mistakes when they are spotted by someone else.	-24	22	<u>41</u>	<u>53</u>	55



Table 1 continued

## Final Factor Loadings for Importance Ratings

Job Outcomes	I Job Freedom	II Trust and Esteem	III Economic Benefits and Growth	IV Recognition and Feedback	<sup>2</sup> h
15. Being given the most important tasks when they come up.	14	19	14	<u>60</u>	44
18. Being told you are doing well by your peers (workers who report to the same supervisor you do).	06	24	13	<u>59</u>	43
17. Being told you are doing well by your supervisor.	03	17	29	<u>58</u>	45
26. Being told you are doing poorly by your supervisor.	-23	-13	21	<u>56</u>	43
27. Being told you are doing poorly by your peers.	06	08	-07	<u>57</u>	34
2. Time off from work to go to the doctor.	25	01	09	-09	08
3. Time off from work to attend classes.	34	-12	20	19	21
4. Being allowed to schedule your own work.	00	03	02	19	04
6. Opportunity to have your job audited for possible reclassification to a higher position.	11	24	22	07	13
8. Cost of living increases in pay.	09	-05	21	36	18
11. Having your own phone.	14	35	16	16	19





Table 1 continued

## Final Factor Loadings for Importance Ratings

Job Outcomes	I Job Freedom	II Trust and Esteem	III Economic Benefits and Growth	IV Recognition and Feedback	$h^2$
12. Increases in pay due to length of time on the job.	25	05	18	20	14
21. Choosing who you want to work with when a task requires more than one person.	36	09	22	37	33
28. Receiving small gifts (e.g., box of candy) as a token of appreciation for good performance.	24	38	01	34	31
36. Being able to choose the type of work you want to do (e.g., typing, xeroxing, etc.).	34	32	23	15	29
38. Being given interesting work to do.	19	09	38	26	25
39. Having a job tailored to fit your skills and abilities.	18	31	33	18	27
44. Being given supervisory responsibility when your supervisor is gone.	02	34	24	33	28
45. Being assured that you won't be laid off.	19	27	32	07	21

Note: Items are arranged to maximally disclose simple structure. Loadings greater than or equal to .40 are italicized. Decimals have been omitted.



Table 2

Correlations between Job Satisfaction Measures and Equity and Control Scores

Outcome Dimensions and Satisfaction Measures	Total Sample	Equity		High Importance	Total Sample	Control <sup>a</sup>	
		Low Importance	High Importance			Low Importance	High Importance
Factor I: Job Freedom (.79, .79, .66) <sup>b</sup>							
Pay	06	00	20	03	07	00	07
Security	18*	33**	09	-19*	06	-41**	06
Social	28**	40**	17	03	07	00	07
Supervisory	28**	19	42**	02	12	-06	12
Growth	14	28*	09	-08	13	-27*	13
Factor II: Trust and Esteem (.74, .66, .49) <sup>b</sup>							
Pay	16	20	11	03	16	-17	16
Security	32**	41**	19	-21*	-19	-26*	-19
Social	30**	43**	21	04	11	-06	11
Supervisory	22*	26*	18	03	12	-11	12
Growth	20*	22	16	-05	-05	-07	-05
Factor III: Economic Benefits and Growth (.81, .78, .73) <sup>b</sup>							
Pay	28**	17	43**	-15	-06	-21	-06
Security	37**	46**	24	-27	-28*	-26*	-28*



Table 2 continued

## Correlations between Job Satisfaction Measures and Equity and Control Scores

Outcome Dimensions and Satisfaction Measures	Equity		Control <sup>a</sup>			
	Total Sample	Low Importance	High Importance	Total Sample	Low Importance	High Importance
Social	42**	40**	38**	-10	-11	-04
Supervisory	47**	45**	38**	-23*	-25	-14
Growth	40**	42**	33*	-23*	-23	-19
Factor IV: Recognition and Feedback (.80, .83, .78) <sup>b</sup>						
Pay	24**	28*	18	-15	-09	-25
Security	34**	35**	29*	-21*	-27*	-07
Social	52**	61**	58**	-13	-17	00
Supervisory	48**	36**	58**	-14	-14	-10
Growth	33**	34**	29**	-11	-08	-16
N	113	59	54	113	59	54

Note. Decimals are omitted.

<sup>a</sup>Control was coded as 1 = internal and 2 = external.

<sup>b</sup>Reliability estimates for importance, equity, and control scores respectively.

\* $p < .05$

\*\* $p < .01$

















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